


EXECUTIVE SECRETARIAT
ROUTING SLIP

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		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	NIO/ECON		X		
17	D/OEA/DI		X		
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Remarks

Executive Secretary

24 Jul 85

Date

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MINUTES
ECONOMIC POLICY COUNCIL

July 2, 1985
9:00 a.m.
Roosevelt Room

Attendees: Messers. Baker, Shultz, Block, Baldrige, Brock, Yeutter, Sprinkel, Wright, Kingon, Porter, Smith, Cornell, Gray, Robinson, Knapp, Scocozza, Low, Bledsoe and Stuckey and Ms. Risque.

1. Japanese Trade Issues

Ambassador Smith reported that the Trade Policy Review Group had considered a large number of Japanese issues, one of the most important of which is the growing sentiment within the Japanese government to impose an export surcharge as a way of reducing the current trade surplus the Japanese have with the United States. He indicated that the members of the Trade Policy Review Group were unanimously agreed that such a measure should be discouraged.

The Council's discussion focused on the economic consequences for both the United States and Japan of a Japanese export surcharge, the need to focus attention on increasing access to Japan's markets for U.S. products and not allowing the export surcharge issue to deflect attention from this primary objective, information we have received regarding whether a possible surcharge would be voluntary or mandatory, and whether the United States should be advising Japan on its export policy.

The Council's discussion also focused on how the Japanese view their current trade situation relative to the United States and the European Economic Community, and the contribution that the pattern of internal investment in Japan makes to their large export surplus. Until Japan is prepared to devote more resources to internal investment and stimulating their domestic economy, they will always be searching for export-led growth.

Ambassador Smith explained that the United States has already communicated to the Japanese Ministry of Foreign Affairs the types of measures we would like to see in their action plan for imports. There was widespread agreement within the Trade Policy Review Group that we do not want a report card developed by the United States against which the Action Plan would be evaluated after it was released.

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The Council also discussed the importance of securing greater market access in Japan and the likely congressional action if significant progress did not occur soon, the possible tools available to the United States to bring about a change in Japanese behavior, the advantages and disadvantages of giving the Japanese an overall trade goal, and the progress that has been made in the MOSS talks.

Decisions

The Council agreed that Secretary Shultz should raise these issues at his meeting with Japanese Foreign Minister Abe in Kuala Lumpur on July 12th. Mr. Porter was requested to coordinate a set of talking points for Secretary Shultz based on the Council's discussion.

The talking points should include that a fundamental U.S. objective is to bring about trade expansion and liberalization, not trade contraction and restraint which adversely affects consumers and economic growth. Specifically, the U.S. goal is to have access to Japanese markets comparable to Japanese access to U. S. markets. The recent Japanese tariff reductions are welcome and a useful step, however, we are disappointed that cuts were not made on a number of items which have been the subjects of repeated requests by the United States.

The talking points should also emphasize that our trade problems with Japan go far beyond the issue of tariffs. Non-tariff barriers are now the primary impediment to international trade and it is imperative that Japan eliminate or reduce non-tariff barriers that discourage imports and protect noncompetitive industries.

2. Common Fund Agreement

Mr. Cornell indicated that we needed a decision promptly with respect to what the United States should communicate regarding the Common Fund Agreement. For the last four years the United States has not definitively closed the door on the Common Fund Agreement but also has not ratified it. Since there are no departments who favor the U.S. ratifying the Common Fund Agreement, the central issue is whether to publicly announce our intention not to ratify or to continue our present behavior.

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The Council's discussion focused on the U.S. interest in the Agreement and its economic implications, the likelihood that the Soviet Union might ratify the Agreement and whether that action would be sufficient to ensure its overall ratification, and the economic effects of additional U.S. stockpile sales at this time.

The Council also discussed the voting arrangements under the Common Fund Agreement were it to be ratified and the need for further intelligence on the possible actions of other countries before reaching a definitive decision on our actions.

The Council will reconsider this agenda item after we have developed further information on the possible actions of other countries.